Ocelot Industries Ltd.

Annual Report
July 31, 1976

To the Shareholders

On September 16, 1976, a Special General Meeting of the Shareholders of Ocelot Industries Ltd. was held, at which time the shareholders approved a reorganization of the share capital of your company. For each presently held share of Ocelot Industries Ltd., you will receive one share of Ocelot Industries Class A Common and one share of Ocelot Industries Class B Common.

To obtain your new share certificates, it will be necessary that you deliver your present share certificate(s) along with the enclosed Letter of Transmittal completed as instructed on the reverse side thereof to the nearest transfer office as indicated on the inside back cover of this Annual Report. It is not necessary to endorse your present stock certificates. It is important that you exchange your shares as soon as possible as we expect that the new Class A Common Shares and Class B Common Shares will be listed on the Toronto, Alberta and Montreal Stock Exchanges shortly.

Within the past few days we have mailed an offer to all Alberta Eastern Gas Limited shareholders, except those resident in the United States, to purchase all their shares, such offer being contingent upon at least 51% of the present outstanding shares of Alberta Eastern Gas Limited accepting such offer. For each presently outstanding share of Alberta Eastern Gas Limited, we have offered $9 (Canadian) cash plus one share of our newly created Class B Common. At our Annual Meeting on October 25th, 1976, I expect to be able to report to you the progress made on this offer.

As part of the above mentioned offer, it was necessary to compile all the latest information about your company. This data was included in the Annual Report to give all shareholders the most up to date account of Ocelot's operations and properties, wells, etc. We would recommend that all shareholders read the information contained herein as it provides a full and current story of our progress since the original prospectus, published in 1973. Of special interest should be the following comparison:

	Discounted at 9%	
	As at June 1, 1976	As At January 1, 1973
Net Proven Reserves	$245,792,000	$20,114,387
Net Probable Reserves	176,759,000	6,901,290
Prospective Lands	4,474,000	3,021,800
	$427,025,000	$30,037,477

The past year was an exciting period during which we reached new records in production revenue and cash flows.

From the audited statements enclosed with this report, shareholders will see that this is the first year in which your Company has shown a profit since the public underwriting in 1973.

In 1973, our gross revenue was approximately $120,000 compared to gross revenue this past year of approximately $9,400,000. We have also progressed from a nil cash flow, to a cash flow in the past year of approximately $4,000,000. Correspondingly, earnings before income taxes and extraordinary items, for the period ending July 31, 1976, amounted to approximately $2,600,000, against a loss of $411,000 in 1973, or a $0.52 per share profit in the past year, as compared to a loss of $0.12 per share in 1973 (both per share numbers are calculated before considering our new share structure).

It may also be of interest to shareholders that many oil and gas companies are on a "full cost accounting" basis whereas Ocelot follows a more conservative method of accounting called "successful efforts accounting". If your Company had been on a "full cost accounting" basis during the year ended July 31, 1976, management estimates that the earnings per share would have been over $0.90 for the number of shares outstanding prior to the reorganization.

At the time of mailing this Annual Report, your Company's total revenue from all divisions including contracting, gas transmission and the production of natural gas, oil and natural gas liquids, is running at levels which, when expressed in equivalent natural gas production, is equal to approximately 55 million cubic feet per day. We expect to further develop our producing and non-producing properties and add to our natural gas and natural gas liquids capacity over the next several months.

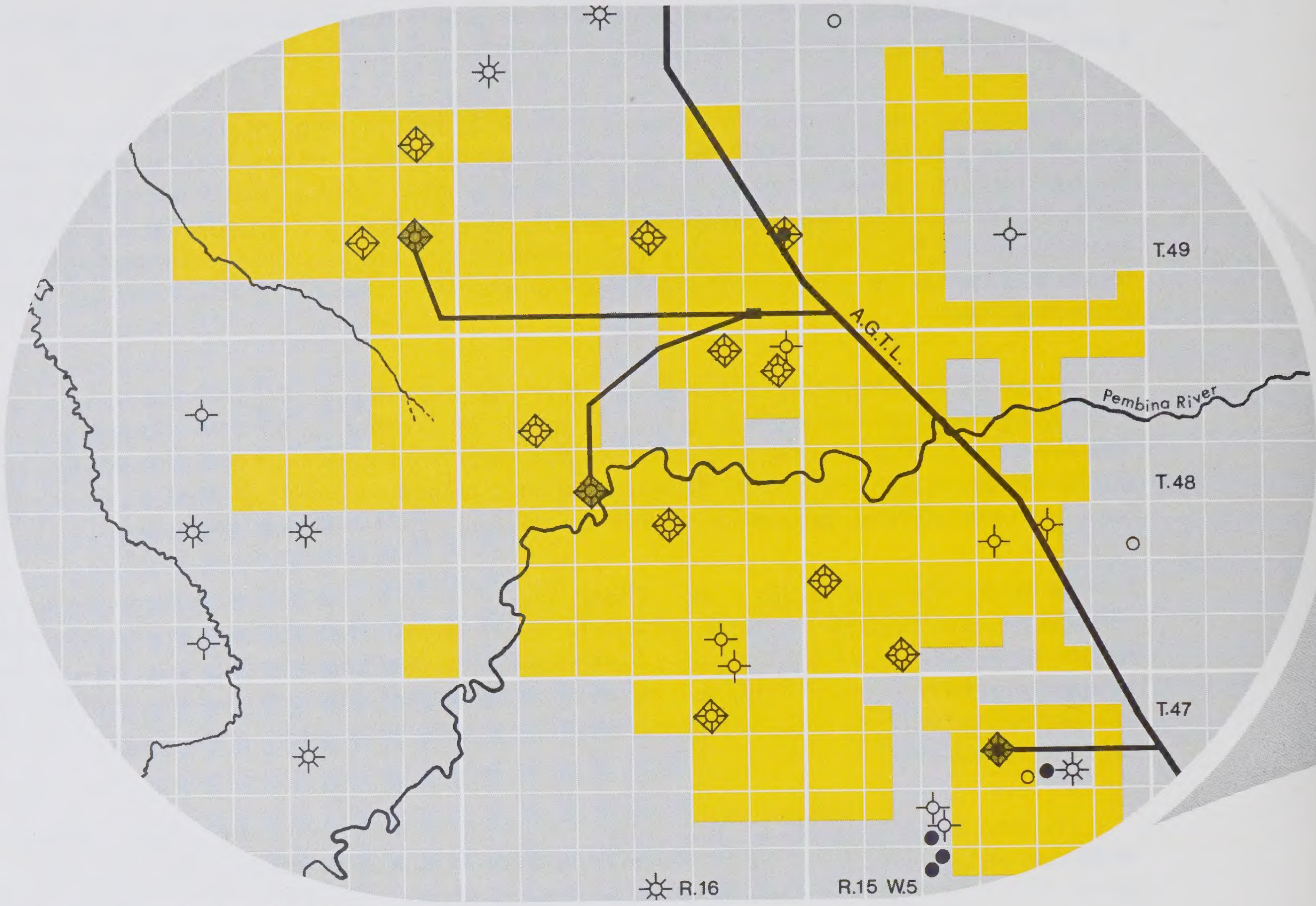
The Annual Meeting will be held in the Banff Suite of the Calgary Inn, Calgary, Alberta, at 10:00 a.m. on October 25th, 1976. I hope many of you will be able to attend.

Yours very truly,

J V Lyons

J. V. LYONS
President.

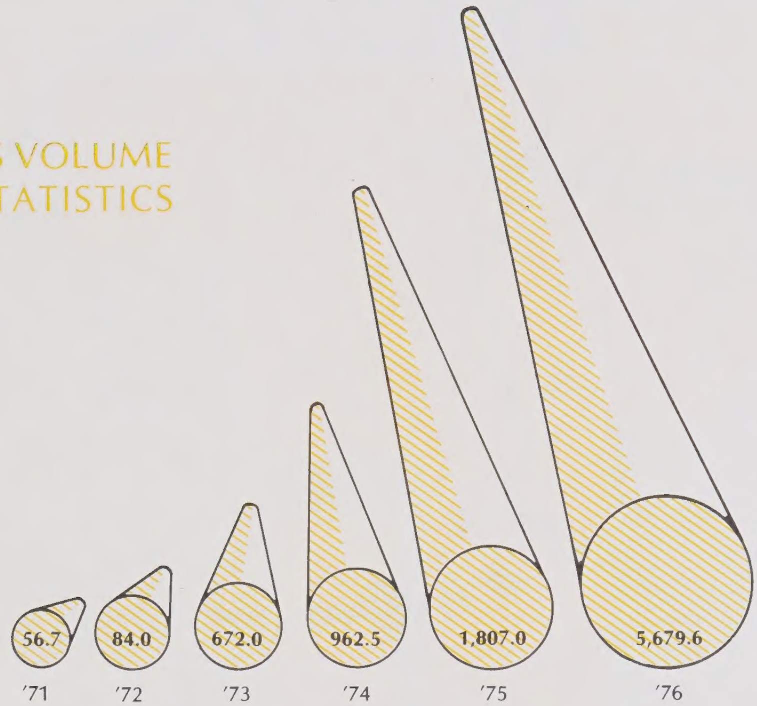
Calgary, Alberta
October 1, 1976



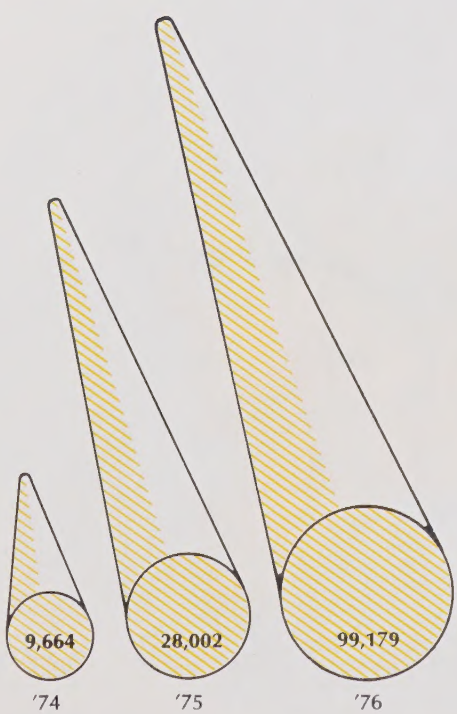
EDSON
(PECO)

GRAND FORKS

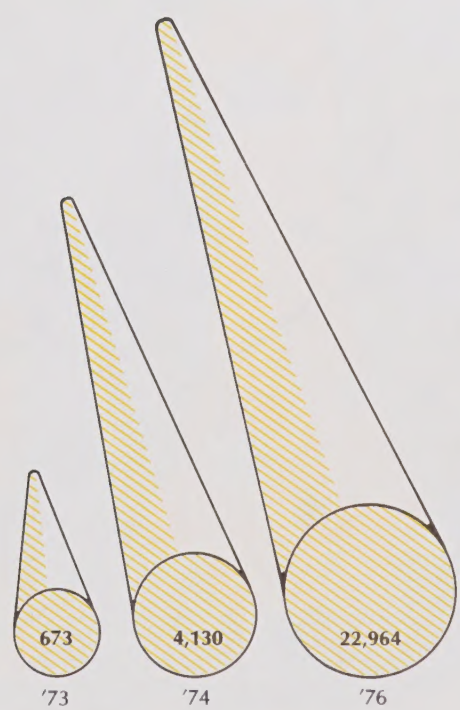
SALES VOLUME STATISTICS



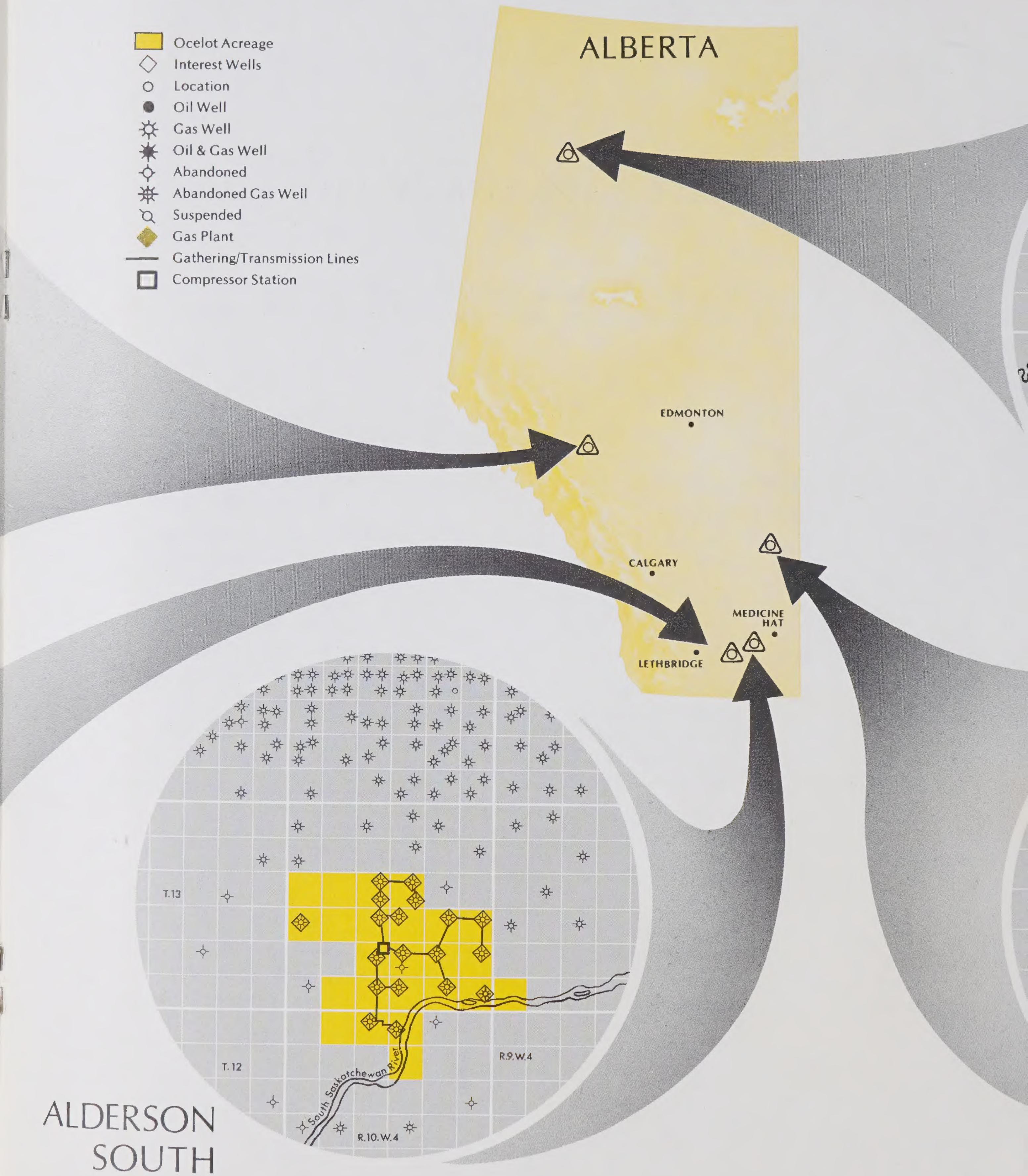
GAS (Mmcf)



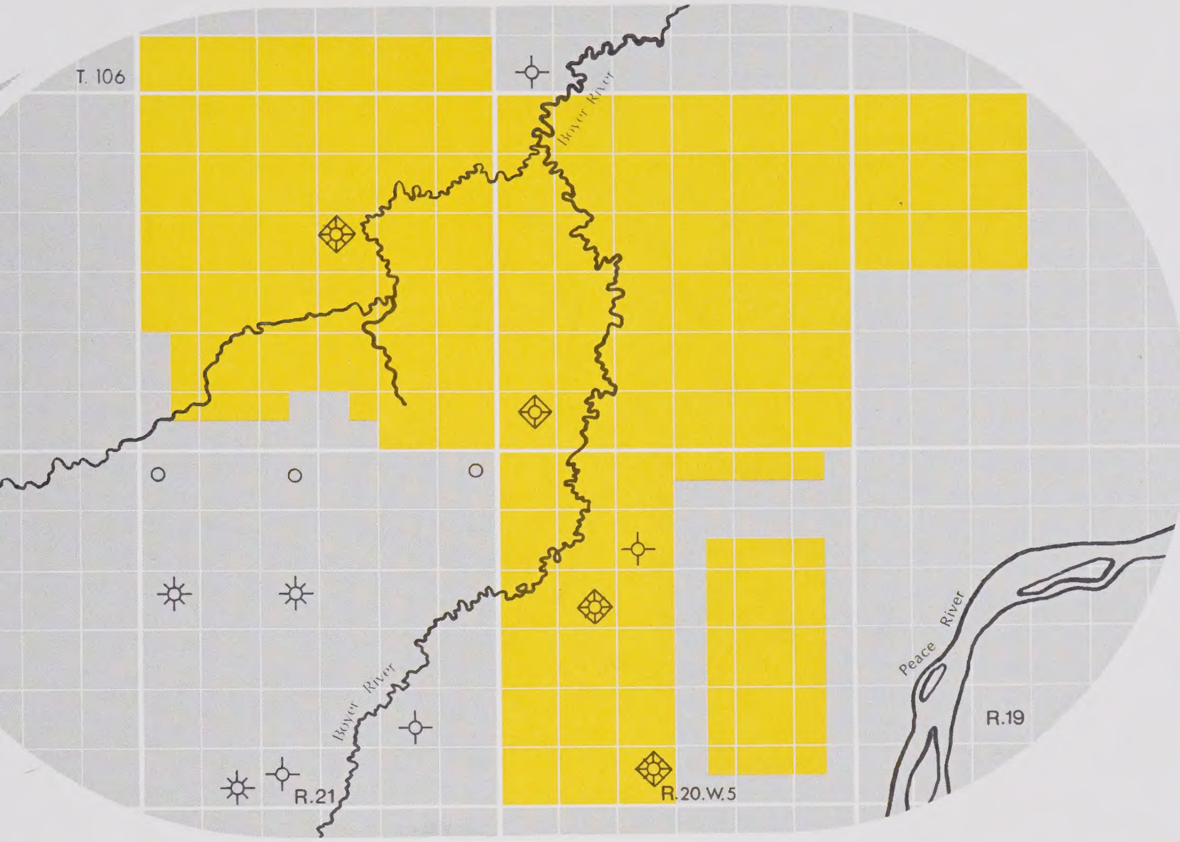
CONDENSATE (Bbls.)



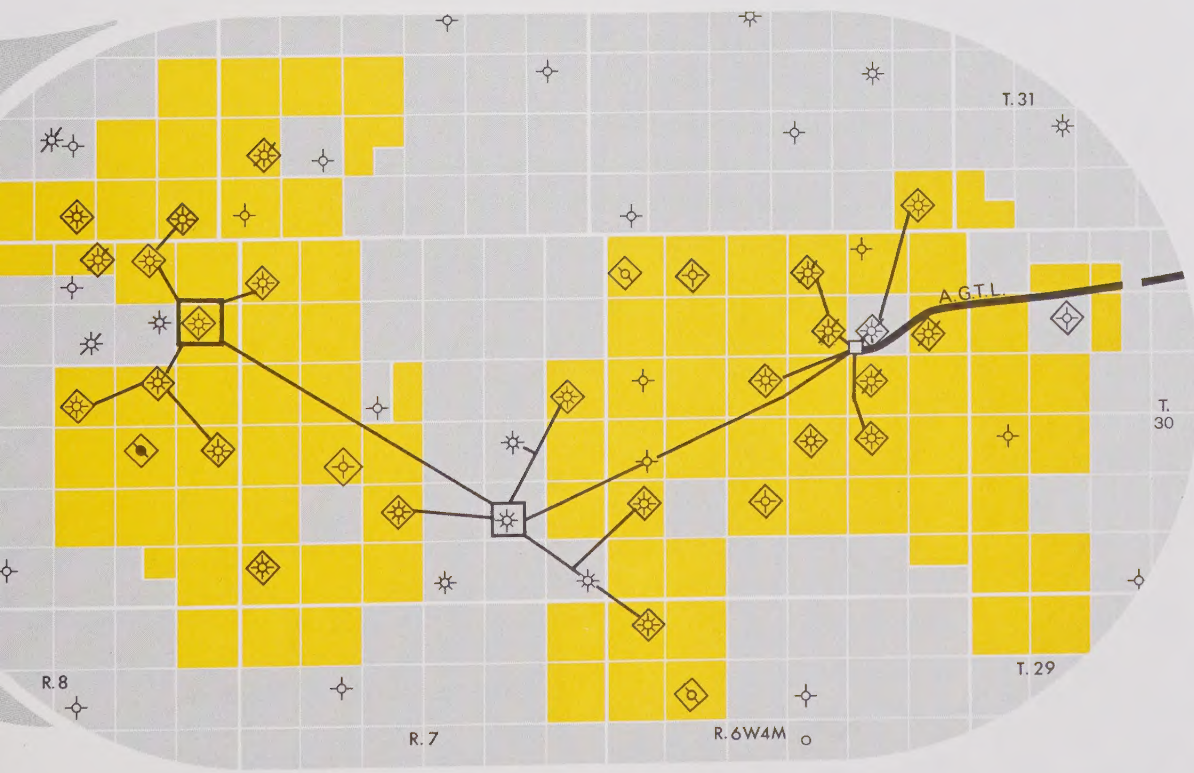
OIL (Bbls.)



ALDERSON SOUTH



BOYER



CHINOOK

OCELOT INDUSTRIES LTD.

OCELOT INDUSTRIES LTD., is incorporated in the Province of Alberta, with its shares traded on the Toronto, Montreal and Alberta Stock Exchanges.

HEAD AND EXECUTIVE OFFICES

775 IBM Building
606-4th St. S.W.
Calgary, Alberta

DIRECTORS

O. R. Edmonds	Toronto, Ontario
N. M. Hannon, Jr.	Calgary, Alberta
D. S. Harris	Calgary, Alberta
J. V. Lyons	Calgary, Alberta
G. C. Solomon	Regina, Saskatchewan

OFFICERS

J. V. Lyons	President
D. S. Harris	Vice-President, Secretary-Treasurer
R. O. Fisher	Vice-President
A. M. Wasylenko	Comptroller

REGISTRAR AND TRANSFER AGENT

National Trust Company Limited
Calgary, Alberta; Montreal, Quebec;
Toronto, Ontario; Vancouver, B.C.;
Winnipeg, Manitoba; and
through its agent
Canada Permanent Trust Co.
Regina, Saskatchewan

BANKERS

The Royal Bank of Canada
Main Branch
Calgary, Alberta

AUDITORS

Thorne Riddell & Co.
Chartered Accountants
Calgary, Alberta

Ocelot Industries Ltd.

Ocelot was incorporated on March 11, 1968 by registration of a Memorandum of Association under The Companies Act (Alberta) as a private company with an authorized capital of 20,000 shares without nominal or par value. By Certificates issued respectively on November 28, 1972 and March 6, 1973 by the Registrar of Companies the Company's capital was reorganized and the Company was converted to a public company with an authorized capital of 7,500,000 shares without nominal or par value. By further Certificate issued on September 24, 1976 by the Registrar of Companies the Company's capital was further reorganized so that the present authorized capital of the Company consists of 7,500,000 Class A common shares without nominal or par value of which 4,226,330 Class A shares are issued and outstanding and 25,000,000 Class B common shares without nominal or par value of which 4,226,330 Class B shares are issued and outstanding.

The head office and principal office of the Company is located at 606-4th Street S.W., Calgary, Alberta.

Business & Properties

The Company is primarily engaged in the exploration for and production of natural gas, natural gas liquids (mostly pentane plus, propane, butane and ethane) and oil, principally in Canada.

As at August 31, 1976, the Company had various interests in 441,930 gross acres (276,078 net acres) in Canada. Of this acreage, 34,048 net acres have been fully or partially developed, 7,424 net acres have been tested by exploratory wells and 215,835 net acres have had only preliminary investigation to date. A report prepared by James A. Lewis Engineering Co. Ltd. (available for inspection at the Company's head office) estimates the present worth, discounted at 9%, of net proved reserves to be $245,792,000 ($204,979,000 at a 12% discount rate), of additional net probable reserves to be $176,759,000 ($137,150,000 at a 12% discount rate) and the current value of prospective lands to be $4,474,000 for a total of $427,025,000 ($346,603,000 at a 12% discount rate).

The Company's reserves are attributable to a total of 23 zones in 9 oil and gas fields.

Late in 1975 Ocelot purchased for a total consideration of $4.2 million the business known as Jennings International Drilling, which is operated as a separate division, and the shares of South Eastern Pipeline Construction Limited and Kari Investments Ltd.

Since the Jennings acquisition was completed, the six deep-drilling rigs operated by the first-class management and service team of this division have been almost continually employed. The present high level of drilling activity is anticipated to continue for several years.

South Eastern Pipeline Construction Company is engaged in the business of contract installation of natural gas pipelines and related facilities and since acquisition, its personnel and equipment have been kept fully employed. Recently South Eastern was awarded a substantial contract to construct gas pipelines within the Suffield block in southeastern Alberta.

Exploration and Development

In the three years which have elapsed since the original prospectus was issued offering Ocelot securities to the public, there have been substantial additions to the Company's gas, oil and natural gas liquid reserves. New exploratory and development acreage has been added to the land inventory and the size and scope of the Company's operations has broadened considerably. The following is a brief description of the significant current areas of activity.

Edson (Peco)

Since inception, most of the Company's resources have been directed toward development of the hydrocarbon reserves discovered by Ocelot in the Edson (Peco) area of west central Alberta. To date, three gas processing plants have been constructed for Ocelot to process gas from the 11-12-49-17-W5M, the 6-21-48-16-W5M and the 11-27-47-15-W5M wells. Producing zones include the Cardium, Viking, Lower Glauconitic and Rock Creek sandstones all of which produce natural gas along with varying amounts of liquid hydrocarbons.

Other zones of interest which have tested gas, but have not as yet been placed on production, include the Basal Second White Specks, the Upper Glauconitic and the Basal Mannville sandstones.

The Company has drilled a total of 12 wells in the Edson (Peco) area, one of which was abandoned. Ocelot also participated in a step-out test operated by another company which test was dry. In addition, three old wells drilled by other companies with casing set through the zones of interest were re-worked by Ocelot with partial success.

In order to fully develop the reserves which have been outlined by the Company's preliminary drilling in Edson (Peco) during the past three years, an extensive development program is currently in the planning stage. Along with new wells, a new plant with greater gas processing capacity will be required. This plant would be capable of processing the gas to obtain a "deep cut", or to take a large part of the ethane, propane and butane as well as the liquid condensate from the natural gas stream.

Because of the economics involved, the three plants presently in operation take only the high gravity oil or condensate from the gas and allow the other valuable by-products to be sold with the gas. Purchasing companies, however, do pay Ocelot a premium price for gas with a higher thermal content.

Various plant sizes with facilities to take a deep cut and handle volumes of gas from 25 to 125 million cubic feet per day have been analyzed for cost versus performance data, but no final decisions have yet been reached on the ultimate capacity which will be required. However, the Company will immediately proceed to construct processing facilities to market additional quantities of oil, natural gas and natural gas liquids.

Chinook

In the Chinook area of eastern Alberta, significant gas reserves have been discovered and developed by Ocelot in five Belly River sandstone zones and also in the deeper Viking and Glauconitic horizons. Most of the gas production is from shallow reservoirs and development is virtually complete. In the deeper beds, exploration has been minimal and it is expected that any additional reserves will be attributable to these deeper beds.

The Company owns varying working interests in a total of 63,840 gross acres of petroleum and natural gas rights. Twenty-seven gas wells have been completed on lands in which the Company has an interest and three gas compressor stations are in operation, together with a fourth owned by another company which is compressing some of the Ocelot gas. Total production from these four stations is in the order of 22 to 24 million cubic feet of gas per day with the Company's share being approximately 11 million cubic feet.

Boyer Area

The Keg River—Boyer Area of northwestern Alberta has been the scene of exploration and development activity in the past two years. Shallow sandstones in the Bluesky zone of Lower Cretaceous age containing large reserves of clean sweet natural gas are known to be present over hundreds of square miles. In the western part of the area some of these reserves have already been developed by major companies and are currently being produced through a large compressor station.

Ocelot has approximately 90 percent interest in over three townships, or 70,880 acres of lands lying on the structurally high end of the Keg River–Boyer trend. Three capped gas wells drilled by Ocelot and other available information suggests the major portion of this acreage is underlain by Bluesky gas reserves.

Directly offsetting Ocelot lands on the west side, a major company has been in the process of developing extensive gas reserves. Negotiations are currently in progress with that company and with others directed toward construction of another high capacity compressor station which would be built over the next 12 to 18 months and reach its design output of 20 million cubic feet of gas per day shortly thereafter.

Difficult summer operating conditions have somewhat limited the speed at which drilling operations and facilities construction can be undertaken. Therefore, the Company plans to accelerate the pace of drilling during the 1976-77 winter season in order to appraise more completely the extent and productive capacity of the Bluesky reservoir.

Scandia

Ocelot has varying interests in a total of 20,182 acres of petroleum and natural gas rights in the general Scandia area located in south central Alberta and has operated or participated in a total of 10 wells during the past six years. Of these, five were successful gas wells and five were dry holes.

In the general area, Bow Island sandstones, the Glauconitic, Ostracod and Basal Quartz zones have all tested gas. One of the original Ocelot wells has been producing for the past four years as a dual zone completion from the Bow Island and Ostracod sands.

The western portion of the Ocelot interest lands is operated by another company which is presently completing plans for a plant to process gas from that area at a rate of approximately five million cubic feet per day.

Future drilling plans call for at least one additional well on the Ocelot operated lands.

Alderson South

Another of the multi-zone producing fields where Ocelot has a major interest is located 35 miles west of the City of Medicine Hat in the Alderson South area. The Company owns a 50 percent interest in 15,360 gross acres of petroleum and natural gas rights.

To date, 17 wells have been drilled on Company lands and completed as gas producers thereby establishing commercial gas reserves in the Milk River, Second White Specks and Bow Island formations. Approximately 17 additional wells will ultimately be needed to effectively recover the gas reserves. Two of these development wells are now being completed and others will follow as the requirements for gas dictate.

Recently, a new compressor station with a capacity of three million cubic feet of gas per day commenced operations.

Grand Forks

The Company is represented in the Grand Forks area of southern Alberta with gross holdings of 15,104 acres and working interests which range from 25 to 50 percent.

Gas production at maximum contract rates of three million cubic feet per day is being delivered from two wells completed in the Bow Island zone. Five Mannville C zone oil wells have been placed on production, but rates have not as yet stabilized to the point where predictions can be made as to the total recoverable oil reserves underlying Company interest lands.

Ensign

In the Ensign area, located some 50 miles southeast of Calgary, the Company has varying interests in 18,560 acres. In July, 1976, two wells were drilled by Ocelot, one of which was a gas discovery and the other was dry. Additional development drilling is expected to follow.

United States

Over the past several years, the Company has acquired lands and has done some exploratory drilling in the United States. In addition to other minor land holdings, the Company was successful in obtaining a 25 percent interest in 126,000 acres located in the northern part of the Denver Basin. During the past year, two unsuccessful wells were drilled and additional exploration on this large block is presently under review.

Offshore Irish Republic

With the Irish Government now granting some offshore exploratory permits, the Company, along with its working interest partners, has applied for conversion of its non-exclusive exploration licence to a defined permit area. This application is currently being processed.

Westcoast Africa

Small interests have been retained by the Company in offshore concessions on the Gambia, Sierra Leone, Equitorial Guinea and Southwest Africa continental shelves near areas where exploration is being

undertaken by major companies. In addition, Ocelot recently acquired a large acreage interest for a nominal consideration in the Sanaga South Concession, offshore from the Cameroons.

Expenditures

The following shows expenditures made by the Company and subsidiaries on exploration and development during the 5 years ended July 31, 1976:

Payments for and under Leases (1)	$ 4,059,661
Exploratory and Development Drilling (2)	11,959,108
Equipment: lease, well and overhead charges	4,258,664
Total	$20,277,433

(1) Includes carrying charges on non-producing properties.
(2) Includes dry hole costs and other exploration costs.

Exploratory and Development Wells

The following table lists, by area, the number of gross and net exploratory and development wells in which the Company and subsidiary had an interest, that were drilled in each of the periods shown.

	Year ended July 31											
	1972		1973		1974		1975		1976		Totals	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Atlee-Buffalo							1	1			1	1.00
Bindloss									2	1	2	1.00
Boyer			1	.47			1	1	2	2	4	3.47
Chinook	1	.50	5	2.50	7	3	9	5	5	2.25	27	13.25
Coleman Lake									1	1	1	1.00
Edson (Erith)	1	.04									1	.04
Edson (Peco)	2	1.80	5	5.00	2	2	2	1.20	5	4.50	16	14.50
Ensign									2	1.13	2	1.13
Esther									1	.75	1	.75
Little Horse	2	2									2	2.00
Medicine Hat	1	.50	1	.50							2	1.00
North Medicine Hat									2	.20	2	.20
Scandia							3	.07	2	.06	5	.13
Winfield	1	1									1	1.00
U.S.A.			1	.50					2	.58	3	1.08
Alderson									5	2.08	5	2.08
Grand Forks									2	1.00	2	1.00
Totals	8	5.84	13	8.97	9	5	16	8.27	31	16.55	77	44.63

(1) "Gross Wells" means the total number of wells in which the Company has a working interest.
(2) "Net Wells" means the number of gross wells in which the Company has a working interest multiplied by the Company's percentage working interest therein, well by well.
(3) Of the wells tabulated above, 4 gross or 4 net, were re-entry wells (drilled and abandoned by other companies and then re-entered by Ocelot), resulting in 3 successes and 1 reabandonment in the Edson (Peco) Area. The successful re-entries were—2 in the Edson (Peco) Area and 1 in the Boyer Area.
(4) Of the wells tabulated above, 18 gross or 8.7 net wells resulted in dry holes, of which 3 were in each of the Scandia and U.S.A. areas, 2 in each of the Edson (Peco), Boyer, Little Horse areas and 1 in each of the Chinook, Edson (Erith), Winfield, Coleman Lake, Ensign and Esther Areas.

Production

The following table shows the participation of the Company and subsidiary in wells capable of production at July 31, 1976:

	Producing Gas Wells		Producing Oil Wells		Capped Gas/Oil Wells (Capable of Production)		Total Wells	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Atlee-Buffalo					1.00	1.00	1.00	1.00
Bindloss					2.00	1.00	2.00	1.00
Boyer					3.00	3.00	3.00	3.00
Chinook	19.00	9.00			8.00	3.75	27.00	12.75
Edson (Peco)	4.00	3.50	2.00	2.00	8.00	7.90	14.00	13.40
Ensign					1.00	.75	1.00	.75
Medicine Hat	3.00	1.50			2.00	1.13	5.00	2.63
North Medicine Hat	2.00	.20					2.00	.20
Scandia	1.00(1)	1.00			4.00	2.04	5.00	3.04
Alderson (2)					17.00	8.50	17.00	8.50
Grand Forks (3)	2.00	1.00	5.00	1.50	5.00	2.83	12.00	5.33
Horsham (4)	22.00	1.60					22.00	1.60
Totals	53.00	17.80	7.00	3.50	51.00	31.90	111.00	53.20

(1) An additional well is producing and the Company has an overriding royalty interest of .9375%.
(2) 12 gross or 6 net wells were acquired through the acquisition of Kari Investments Ltd.
(3) 7 gross or 3.25 net wells were acquired through the acquisition of Kari Investments Ltd.
(4) All wells were acquired through the acquisition of Kari Investments Ltd.

The following table shows sales of gas, condensate and oil by the Company and subsidiary during the last five years.

	Year ended July 31									
	1972	1973	1974	1975	1976			Totals		
	Gas Mcf	Gas Mcf	Gas Mcf	Gas Mcf	Gas Mcf	Condensate Bbls	Oil Bbls	Gas Mcf	Condensate Bbls	Oil Bbls
Chinook	—	—	—	380,429	1,746,717	—	—	2,127,146	—	—
Edson (Peco) (1)	—	—	362,388	998,398	3,235,079	99,179	9,496	4,595,865	136,845	14,299
Medicine Hat	83,966	84,266	175,228	64,904	110,278	—	—	518,642	—	—
Scandia	—	587,708	424,881	363,281	273,280	—	—	1,649,150	—	—
Alderson	—	—	—	—	2,217	—	—	2,217	—	—
Grand Forks	—	—	—	—	209,787	—	13,468	209,787	—	13,468
Horsham	—	—	—	—	95,010	—	—	95,010	—	—
North Medicine Hat	—	—	—	—	7,224	—	—	7,224	—	—
Totals	83,966	671,974	962,497	1,807,012	5,679,592	99,179	22,964	9,205,041	136,845	27,767

(1) There were also sales of production from the Edson (Peco) area of 673 bbls and 4,130 bbls of oil during 1973 and 1974 respectively and 9,664 bbls and 28,002 bbls of condensate during 1974 and 1975 respectively.

Canadian Property Interests

The interests of the Company and subsidiary in Canadian properties at August 31, 1976 was as follows:

	Gross Acres(1)	Net Acres(2)
Alberta		
Atlee Buffalo	51,840	20,426
Boyer	70,880	65,779
Chinook	63,840	30,160
Coleman Lake	4,640	3,480
Deep Valley	18,880	18,880
Edson	81,760	63,214
Ensign	18,560	7,200
Esther	4,000	1,500
Little Horse	12,800	6,400
Medicine Hat	52,846	19,479
Scandia	20,182	7,652
Winfield	12,582	12,582
Total—Alberta	412,810	256,752
Saskatchewan		
Dodsland	17,280	17,280
Horsham	10,560	766
Smiley	1,280	1,280
Total—Saskatchewan	29,120	19,326
Grand Total	441,930	276,078

(1) "Gross Acres" means the total number of acres in which the Company has or may earn a working interest.

(2) "Net Acres" means the aggregate of the gross acres in each tract multiplied by the Company's percentage working interest therein.

Alberta Crown Royalties

Royalties payable under Alberta Crown Leases in connection with crude oil and natural gas are subject to redetermination from time to time by regulations passed under The Mines and Minerals Act by the Lieutenant-Governor in Council, certain provisions of which are referred to below. In connection with the Freehold Leases, the Lessor's royalties vary from 12½% to 15%. In circumstances where the Company's working interest is less than 100%, the maximum royalties payable will be decreased proportionately. In computing the amount of royalty payable, the Company is permitted, in certain circumstances, to make deductions when costs have been incurred in trucking, gathering, processing or transporting the crude oil or natural gas to the point of delivery.

Alberta Crown royalties on crude oil vary with both the rate of production and the wellhead prices received. The average wellhead price has recently been increased to approximately $9.05 per barrel on oil produced from Crown leased fields. These royalties have been substantially higher for "crude oil other than new oil" than for "new oil" which is described as oil discovered by wells drilled after April 1, 1974 or the increment of oil recovered by enhanced recovery schemes instituted after that date. Where the par price is the same or less than the select price for that month for crude oil from a well which produced from 0 to 1,200 barrels in the month, the Crown royalty is on a sliding scale with a maximum of 180 barrels. On production in excess of 1,200 barrels, the Crown royalty increases by 25% of the excess. Where the par price of crude oil for a month is greater than the select price of crude oil for that month, the royalty for that month with respect to a well is the number of barrels calculated by applying the following equation:

$$R = \frac{S + kS\,(A - B)}{A}$$

R is the royalty payable in barrels. S is the number of barrels determined as being the Crown royalty as if the par price for crude oil were equal to or less than the select price for crude oil. k is the royalty factor for the month that is applicable to the crude oil from the well. A is the par price of crude oil for the month. B is the select price of crude oil for the month. Under current regulations with respect to the month of July 1976 and subsequent months, k (the royalty factor) is 1.6096 with respect to "crude oil other than new oil" and 0.596 with respect to "new oil". A (the par price) is $9.36. B (the select price) is $4.71.

In the Province of Alberta the Crown royalties on natural gas are calculated solely with respect to increments in selling prices of natural gas. These royalties are higher for "old gas" than for "new gas" which is defined in the regulations as natural gas which falls into any of several categories specified in the regulations. On natural gas obtained in the month of May, 1975 and subsequent months, the current regulations provide for royalty rates on old gas ranging from 22% at a price of $0.26 per Mcf or lower, to 25.61% at a price of $0.36 per Mcf. At prices over $0.36 per Mcf the royalty is calculated in accordance with the following equation:

$$R\% = \frac{922 + 50\,(F - 36)}{F}$$

F means the average selling price per Mcf for the month of natural gas and R% means the Crown's royalty share expressed as a percentage of the natural gas. The royalty rates on "new gas" range from 22% at a price of $0.26 per Mcf or lower to 23.75% at a price of $0.36 per Mcf. At prices over $0.36 per Mcf the royalty is calculated in accordance with the following equation:

$$R\% = \frac{854 + 35\,(F - 36)}{F}$$

F and R% have the same meanings as set forth above.

Reserves

A report dated as of June 1, 1976, prepared by James A. Lewis Engineering Co. Ltd., consulting engineers (the Lewis Report) has estimated the net proved developed and undeveloped reserves of the

Company and subsidiary to consist of 261 billion cubic feet of natural gas (before royalties 437 billion cubic feet of natural gas) and 6,048,000 barrels of oil and natural gas liquids (before royalties 12,400,000 barrels of oil and natural gas liquids). Additional net probable reserves are estimated to be 238 billion cubic feet of natural gas (before royalties 387 billion cubic feet of natural gas, and the additional net probable reserves of oil and natural gas liquids are estimated to be 6,813,000 barrels (before royalties 14,312,000 barrels of oil and natural gas liquids).

The Lewis Report appraised these reserves and prospective lands as follows:

	Present Worth (3) June 1, 1976	
	Discounted at 9%	Discounted at 12%
Proved Reserves(1)	$245,792,000	$204,979,000
Additional Probable Reserves(2)	176,759,000	137,150,000
	$422,551,000	$342,129,000
Prospective Lands(4)	4,474,000	4,474,000
Total(5)	$427,025,000	$346,603,000

(1) *Proved Reserves* are those established by existing production, by adequate tests and by other information on zones behind pipe in existing wells, or those existing beneath undeveloped tracts offsetting or between producing wells where geological control confirms the presence of these reserves. Approximately 48% of the Company's reserves are developed and 52% are undeveloped.

(2) *Probable Reserves* are those estimated for locations or areas beyond proved control where geological data reasonably confirm satisfactory structural and formation characteristics; for those in zones behind pipe in existing wells where data reasonably confirm the presence of these reserves but where such data are inadequate to establish proof of the productivity of the reserves; and for those reserves which may be proven by geological and engineering factors but for which no foreseeable economic market exists.

(3) Refers to present worth of future cash flow using the indicated discount rate. The Lewis Report has taken into account royalties payable, estimated recovery of natural gas liquids and premiums payable for higher thermal content. This valuation is also net after capital expenditures estimated in the Lewis Report at $81,404,000 to bring such reserves into full production.

(4) The values of these lands are based on recent trades in respective areas, known geological features, exploration activity and other pertinent factors such as accessibility and marketing conditions.

(5) The estimated present worth values do not necessarily reflect the fair market value of such properties if the properties were to be sold.

Approximately 64% of the proved gas reserves and 75% of the proved plus probable gas reserves described in the Lewis Report, together with the natural gas liquids, are attributable to properties in the Edson (Peco) field in west central Alberta. The Company's proved and probable reserves in the Edson (Peco) field in west central Alberta are attributable to approximately 35,560 gross acres (32,883 net acres). The Company's proved and probable reserves in other fields are attributable to approximately 105,560 gross acres (52,729 net acres).

Copies of the Lewis Report have been filed with the Alberta and Ontario Securities Commissions and are available for public inspection at their respective offices and at the head office of the Company during the period the Offer is outstanding.

Gas Contracts

The Company and its subsidiary Kari Investments Ltd. have entered into several long term gas purchase contracts with TransCanada PipeLines Ltd., Northwestern Utilities Limited, Canadian Western Natural Gas Company Limited and other purchasers providing for the sale of approximately 51.5 million cubic feet of gas per day. These contracts have terms of from 10 to 25 years and provide that the purchasers thereunder shall take or pay for specified volumes of gas, if available, from specified producing properties of the Company. Gas prices payable to the Company under these contracts vary and are subject to redetermination on a monthly basis under the Alberta Natural Gas Pricing Agreement Act. During the month of July, 1976 prices paid for gas sold under these contracts were between a low of approximately $1.01 per Mcf and a high of approximately $1.22 per Mcf.

Capitalization

	Authorized	Outstanding as at July 31, 1976	Outstanding as at August 31, 1976	Pro-forma Outstanding as at August 31, 1976 (3)
Long Term Debt				
Bank Production Loan (Secured) (1)..		$12,012,448	$12,273,448	$57,952,948
Due to Affiliated Company (1).......		$ 430,303	$ 432,683	$ 432,683
Advance for Development including accrued interest of $561,323 at July 31, 1976 (1).................		$ 4,461,323	$ 4,498,586	$ 4,498,586
Promissory Note (1)................		$ 411,233	$ 411,233	$ 411,233
Capital Stock				
Shares without nominal or par value. Before reorganization.............	7,500,000 shares	4,226,330 shares ($ 4,288,697)	4,226,330 shares ($ 4,288,697)	— —
After reorganization (2)				
Class A Common...............	7,500,000 shares ($10,000,000)	—	—	4,226,330 shares ($ 2,144,349)
Class B Common...............	25,000,000 shares ($75,000,000)	—	—	9,301,830 shares ($37,672,848)

Notes:

1. Reference is made to Note 4 to the consolidated financial statements of the Company appearing on page 20 hereof.
2. The authorized and issued capital of the Company was reorganized and increased by Certificate issued on September 24, 1976 by the Registrar of Companies of Alberta. The effect of the reorganization was to subdivide each issued share of the Company into one Class A common share and one Class B common share of the Company.
3. Pro-Forma Capitalization of the Company as at August 31, 1976, gives effect, as at that date, to the following transactions:
   - (a) the reorganization of share capital referred to in Note 2 above;
   - (b) the issue, under the terms of the offer to purchase shares of Alberta Eastern Gas Limited, of 5,075,500 Class B shares for an aggregate consideration of $35,528,500 ($7 per Class B share); and
   - (c) the payment of an aggregate of $45,679,500 cash consideration for the Alberta Eastern shares, and the increase in the bank production loan by a like amount.

Principal Holders of Shares of Ocelot

The following table lists each shareholder who is known to have owned of record or beneficially, directly or indirectly, on August 31, 1976, more than 10% of the outstanding shares of the Company:

			Pro-forma (Note)			
			Class A		Class B	
Name and Address	Number of Shares Owned	Percentage of Shares Owned	Number of Shares Owned	Percentage of Shares Owned	Number of Shares Owned	Percentage of Shares Owned
J. V. Lyons 1928 Bayshore Road, Calgary, Alberta	2,421,181	57.29%	2,421,181	57.29%	2,630,914	28.28%
Murcon Development Ltd. 171 Malibou Road S.W., Calgary, Alberta	556,866	13.18%	556,866	13.18%	557,866	6.00%

Note:

The pro-forma gives effect to the reorganization of the share capital of the Company into Class A and Class B common shares and assumes the issue of a total of 5,075,500 Class B common shares under the terms of the Offer to purchase shares of Alberta Eastern.

Murcon Development Ltd. is beneficially owned by N. M. Hannon Jr., a director of the Company, and members of his immediate family.

On August 31, 1976, Gardiner, Watson Limited, 335 Bay Street, Toronto held of record, but not beneficially, 497,998 shares representing 11.78%. Mr. O. Edmonds, a director of the Company, is also a director and officer of Gardiner, Watson Limited.

The directors and senior officers of the Company as a group, beneficially owned on August 31, 1976 directly or indirectly 3,187,470 shares of the Company representing 75.42% of the outstanding shares of the Company.

Management of Ocelot

Directors and Officers

The names and home addresses of the directors and officers of the Company, the offices held by each and their principal occupations during the five preceding years are as follows:

Name and Address	Office	Principal Occupation
EDMONDS, ORVILLE 53 Beaufort Road Toronto, Ontario	Director	Director and officer of Gardiner, Watson Limited.
FISHER, ROYDEN OTTO 96 Colleen Crescent Calgary, Alberta	Vice-President	Officer of the Company since May, 1972 and previously in various managerial positions with Bow Valley Industries Ltd.
HANNON, JR., NORBERT MICHAEL 171 Malibou Road S.W. Calgary, Alberta	Director	Officer, Canadian Hydrodynamics Ltd., oil industry consultants since 1962.
HARRIS, DONALD SYDNEY 34 Willow Park Green Calgary, Alberta	Vice-President, Secretary-Treasurer and Director	Officer of the Company since September, 1970.
LYONS, JAMES VERNE 1928 Bayshore Road Calgary, Alberta	President and Director	President of the Company since January, 1973. Managed the affairs of the Company since August 1971. Officer of Alberta Eastern Gas Limited from June, 1968 to August, 1971.
SOLOMON, GEORGE C. 2600 - 19th Avenue Regina, Saskatchewan	Director	President of Western Limited.
WASYLENKO, ALEXANDER MICHAEL 74 Malibou Road S.W. Calgary, Alberta	Comptroller	Comptroller of the Company since July, 1973, and previously Chief Accountant of Cigas Products Ltd., division of Norcen Energy Resources Ltd.

Remuneration

The aggregate direct remuneration paid or payable by the Company to the directors and senior officers of the Company was $296,189 for the year ended July 31, 1976 and $12,318 for the month ended August 31, 1976.

Stock Options

At August 31, 1976 an officer held an option to purchase 2,000 shares of the Company at $3.83 per share. This option was granted on October 30, 1973 and expires on April 30, 1977.

Promoters of Ocelot

J. V. Lyons (President and a director of the Company), Donald Sydney Harris (Vice-President and Secretary-Treasurer and a director of the Company) and Murcon Development Ltd. (beneficially owned by N. M. Hannon, a director of the Company, and members of his family) took the initiative in founding and organizing the Company and may therefore be regarded, within the meaning of applicable securities legislation, as promoters of the Company. Messrs. Lyons and Harris and Murcon Development Ltd. were primarily responsible for the activities of the Company in acquiring its property interests until the first public issue of the Company's shares by its prospectus dated April 25, 1973 both through financial assistance and personal service and were responsible for the growth of the Company to that time. Since incorporation, Mr. Lyons, Murcon Development Ltd. and Mr. Harris received, respectively, 2,352,000 shares, 672,000 shares and 336,000 shares for $1,490, $400 and $200 respectively (after giving effect to the subdivision of shares in November, 1972 but before the capital reorganization in September, 1976). Other than remuneration in the normal course paid or to be paid to Mr. Lyons and Mr. Harris and other than dividends or interest on indebtedness of the Company, the promoters have not received anything of value and do not expect to receive anything of value from the Company. Verne Lyons Consultants Limited transferred to the Company, to Sedalia and to an unrelated corporation, and Murcon Development Ltd. transferred to the Company, all of their respective interests in and to certain Petroleum and Natural Gas Leases and a Reservation, in each case for nominal consideration. While such Leases and Reservation are considered by the Company to be of value the Company did not assume any outstanding financial liability. The Company has a right of first refusal to acquire interests owned by Sedalia, as described under "Interest of Management and Others in Material Transactions".

Interest of Management and Others in Material Transactions

Pursuant to an agreement made as of November 30, 1972 between the Company and Verne Lyons Consultants Limited, the Company is now indebted to Verne Lyons Consultants Limited in the amount of $432,683 (including accrued interest to August 31, 1976) which is repayable as to $100,000 on January 1 in each year with the balance payable on January 1, 1980 and which carries interest on the unpaid balance at the rate of 7% per annum.

Sedalia Gas Limited ("Sedalia"), an Alberta corporation which is beneficially controlled by J. V. Lyons, D. S. Harris and N. M. Hannon, is the holder of various mineral rights and proven and probable reserves of natural gas. Pursuant to an agreement made as of March 21, 1973 Sedalia has granted to the Company for a period of twenty-one years a right of first refusal to acquire all or any of its present property interests and reserves. The agreement also provides that Sedalia will not acquire any additional property interests during such twenty-one year period.

Dividend Policy

For the present it is expected that Ocelot will retain its earnings to finance further development of its properties. Any decision to pay dividends will be at the discretion of the board of directors and will be made in the light of the Company's earnings and financial and other conditions at the time.

Description of the Class A Common Shares and Class B Common Shares of Ocelot

The authorized capital of Ocelot is 7,500,000 Class A common shares without nominal or par value and 25,000,000 Class B common shares without nominal or par value of which 4,226,330 Class A common shares and 4,226,330 Class B common shares are issued and outstanding as fully paid and non-assessable.

The Class A common shares and the Class B common shares rank equally one with the other except that each Class A common share is entitled to 20 votes and each Class B common share is entitled to one vote and the Class A common shares are convertible into Class B common shares on a share for share basis but the Class B common shares carry no conversion rights.

Auditors, Transfer Agent and Registrar

Messrs. Thorne Riddell & Co., Chartered Accountants, Suite 1400, Bow Valley Square 2, 205-5th Avenue S.W., Calgary Alberta, are the auditors of Ocelot.

The transfer agent and registrar for Ocelot's shares is National Trust Company, Limited at its principal offices in Montreal, Toronto, Winnipeg, Calgary and Vancouver and through the facilities of Canada Permanent Trust Company in Regina.

Consent of Auditors

TO: Ocelot Industries Ltd.

We hereby consent to the use of our report dated September 24, 1976, on the consolidated balance sheet of Ocelot Industries Ltd. and subsidiaries as at July 31, 1976, the consolidated statements of earnings, retained earnings (deficit) and changes in financial position for the five years then ended appearing in the Offering Circular accompanying the Offer by Ocelot Industries Ltd. dated September 30, 1976, to certain holders of shares of Alberta Eastern Gas Limited.

Calgary, Alberta
September 30, 1976

(signed) THORNE RIDDELL & CO.
Chartered Accountants

Consent of Consulting Engineers

TO: Ocelot Industries Ltd.

We hereby consent to the use of our report referred to under the heading "Business and Properties" on page 5 hereof and the heading "Reserves" on page 10 hereof.

Calgary, Alberta
September 30, 1976

(signed) JAMES A. LEWIS ENGINEERING CO. LTD.

Auditors' Report

To the Directors and Shareholders of
Ocelot Industries Ltd.

We have examined the consolidated balance sheet of Ocelot Industries Ltd. and subsidiaries as at July 31, 1976 and the consolidated statements of earnings, retained earnings (deficit) and changes in financial position for the five years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at July 31, 1976 and the results of their operations and the changes in their financial position for the five years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
September 24, 1976
(except with respect to
information contained
in note 8 as to
which the date is
September 30, 1976)

(signed) THORNE RIDDELL & CO.
Chartered Accountants

Ocelot Industries Ltd.
and subsidiaries

Consolidated Balance Sheet — July 31, 1976

Assets

	1976	1975
CURRENT ASSETS		
Cash and short-term deposits	$ 167,802	$ 261,783
Accounts receivable—trade		
Affiliated company	157,314	396,433
Other	2,873,248	369,590
Drilling and construction contracts-in-progress, at cost	372,770	—
Prepaid expenses and deposits	117,438	11,500
	3,688,572	1,039,306
FIXED ASSETS, at cost (notes 1, 2 and 3)	22,538,727	9,115,108
Accumulated depletion and depreciation	996,885	99,915
	21,541,842	9,015,193
OTHER ASSETS	147,441	—
	$25,377,855	$10,054,499

Liabilities

	1976	1975
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 2,723,331	$ 1,322,677
Income taxes	303,965	—
Current maturities on long-term debt	2,758,040	730,622
	5,785,336	2,053,299
LONG-TERM DEBT (note 4)	14,557,267	5,857,991
DEFERRED INCOME TAXES (note 1)	516,562	—

Shareholders' Equity

	1976	1975
CAPITAL STOCK (notes 5 and 8)		
Authorized		
7,500,000 shares of no par value		
Issued		
4,226,330 (1975—4,193,330) shares	4,288,697	4,133,057
RETAINED EARNINGS (DEFICIT)	229,993	(1,989,848)
	4,518,690	2,143,209
	$25,377,855	$10,054,499

Approved by the Board

(Signed) J. V. LYONS, Director

(Signed) D. S. HARRIS, Director

Ocelot Industries Ltd.

and subsidiaries

Consolidated Statement of Earnings

	Year Ended July 31, 1976	1975	1974	1973	1972
Revenue					
Oil and gas sales	$6,722,583	$ 993,240	$ 244,847	$ 117,543	$ 15,217
Less royalties	1,944,937	262,138	62,881	32,001	1,591
	4,777,646	731,102	181,966	85,542	13,626
Contract drilling and pipeline construction (note 2)	4,643,514	—	—	—	—
Interest and other	38,443	58,544	88,482	34,511	—
	9,459,603	789,646	270,448	120,053	13,626
Expenses					
Oil and gas production	595,037	168,352	100,388	4,593	2,211
Contract drilling and pipeline construction (note 2)	2,381,198	—	—	—	—
Carrying charges on non-producing properties	166,779	168,369	50,038	52,462	43,266
Exploration	344,503	146,057	44,552	21,826	19,051
Dry hole costs	368,684	353,007	8,263	159,630	397,732
General and administrative	736,830	70,120	121,380	81,570	55,907
Interest on long-term debt	1,348,461	529,248	251,128	196,124	15,377
Depletion and depreciation (note 1)	945,587	54,549	22,348	15,089	4,656
	6,887,079	1,489,702	598,097	531,294	538,200
Earnings (loss) before undernoted items	2,572,524	(700,056)	(327,649)	(411,241)	(524,574)
Income Taxes (note 1)	929,256	—	—	—	—
Earnings (loss) before extraordinary items	1,643,268	(700,056)	(327,649)	(411,241)	(524,574)
Extraordinary Items					
Gain on sale of equipment	—	88,367	—	—	—
Recovery of deferred income taxes	576,573	—	—	—	—
	576,573	88,367	—	—	—
Net Earnings (Loss) for the Year	$2,219,841	$ (611,689)	$(327,649)	$(411,241)	$(524,574)
Per Class A or Class B Share (note 7)					
Earnings (loss) before extraordinary items	$0.20	$(0.08)	$(0.04)	$(0.06)	$(0.08)
Net earnings (loss) for the year	$0.26	$(0.07)	$(0.04)	$(0.06)	$(0.08)

Ocelot Industries Ltd.
and subsidiaries

Consolidated Statement of Retained Earnings (Deficit)

	Year Ended July 31, 1976	1975	1974	1973	1972
Deficit at beginning of year........	$(1,989,848)	$(1,378,159)	$(1,050,510)	$ (639,269)	$(114,695)
NET EARNINGS (LOSS) FOR THE YEAR.	2,219,841	(611,689)	(327,649)	(411,241)	(524,574)
RETAINED EARNINGS (DEFICIT) AT END OF YEAR................	$ 229,993	$(1,989,848)	$(1,378,159)	$(1,050,510)	$(639,269)

Consolidated Statement of Changes in Financial Position

	Year Ended July 31, 1976	1975	1974	1973	1972
SOURCE OF FUNDS					
From operations					
Net earnings before extraordinary items.......	$ 1,643,268	$ —	$ —	$ —	$ —
Charges not involving funds	2,338,273	—	—	—	—
	3,981,541	—	—	—	—
Net proceeds on issue of shares.	155,640	—	—	4,130,967	—
Proceeds on sale of equipment.	—	621,297	—	—	—
Long-term debt.............	12,526,138	4,252,628	1,675,746	1,514,975	951,504
	16,663,319	4,873,925	1,675,746	5,645,942	951,504
APPLICATION OF FUNDS					
In operations					
Loss before extraordinary item................	—	700,056	327,649	411,241	524,574
Charges not involving funds	—	102,974	22,348	15,089	4,656
	—	597,082	305,301	396,152	519,918
Fixed assets.................	9,800,932	3,275,342	3,049,485	2,184,801	878,905
Long-term debt.............	3,826,862	791,600	1,142,020	863,443	—
Acquisition of net assets of subsidiary companies and Jennings International Drilling (note 2)................	4,118,296	—	—	—	—
	17,746,090	4,664,024	4,496,806	3,444,396	1,398,823
INCREASE (DECREASE) IN WORKING CAPITAL...................	(1,082,771)	209,901	(2,821,060)	2,201,546	(447,319)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR..........	(1,013,993)	(1,223,894)	1,597,166	(604,380)	(157,061)
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR................	$(2,096,764)	$(1,013,993)	$(1,223,894)	$1,597,166	$(604,380)

Ocelot Industries Ltd.

and subsidiaries

Notes to Consolidated Financial Statements

1. Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant subsidiaries are wholly-owned. The amount by which the cost of the shares of subsidiaries exceeded the underlying net book value at dates of acquisition has been included in fixed assets and is subject to the accounting policies outlined below.

(b) Oil and Gas Properties

The companies follow the accounting policies of charging exploration expenses and carrying charges of producing and non-producing properties to earnings as incurred. Lease and other property acquisition costs are capitalized and are charged to earnings if the property is subsequently abandoned. The costs of drilling productive wells are capitalized and the costs of unproductive wells are charged to earnings when determined to be dry. The costs of producing properties and producing wells are depleted using the unit of production method based upon estimated proven recoverable reserves as determined by independent valuation.

Depreciation on tangible oil and gas properties is provided in the accounts at rates and on methods designed to amortize the costs of such properties over their useful lives.

(c) Mining Properties

Costs related to the exploration and development of mineral properties are capitalized on a project-by-project basis and will be depleted on the basis of mineral reserves as and when discovered or written-off to earnings if the project is determined to be unsuccessful.

(d) Drilling and Construction

Depreciation on drilling and construction assets is provided on methods and at rates which will amortize the cost of the assets over their estimated useful lives. The annual rates of depreciation on major classes of assets are:

Drilling Rigs	10 per cent (when working)
Construction Equipment	20 per cent to 35 per cent

Drilling operations are charged with a fixed amount based on a weighted average of past years' repair costs for each day that drilling equipment is working. Actual repair costs are charged against the allowance so created.

(e) Income Taxes

The company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the companies provide for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming capital cost allowances and exploration and development costs in excess of the depreciation and depletion provisions reflected in its accounts.

As at July 31, 1976, the companies had approximately $16 million available for deduction against future taxable income (subject to final determination by taxation authorities).

(f) Foreign Currencies

The accounts of a United States subsidiary are translated to Canadian dollars on the following bases:

(i) Current assets and liabilities, at the rate of exchange in effect at the balance sheet date;

(ii) Fixed assets and liabilities at the rate of exchange in effect at the date of the transaction;

(iii) Revenue and expenses (excluding depletion and depreciation, which are translated at the rate of exchange applicable to the related asset), at the average rates of exchange for the period.

The loss on translation has been charged to earnings.

2. Business Combinations

During the year ended July 31, 1976, the company entered into the following business combinations:

(a) Effective September 1, 1975, the company purchased all the issued and outstanding shares of Kari Investments Ltd. (Kari), an oil and gas exploration company, for $35,585 cash.

(b) Effective September 29, 1975, the company purchased all the issued and outstanding shares of South Eastern Pipeline Construction Ltd. (South Eastern Pipeline) and South Eastern Construction and Distribution Services Ltd. (South Eastern Construction), two construction companies, for $664,350 cash.

(c) Effective October 1, 1975, the company purchased the drilling operations formerly carried on by PanCana Industries Ltd., a public company, under the name of Jennings International Drilling. The total purchase consideration was $3,516,417 of which $3,066,417 was paid in cash on consummation of the agreement and the balance is payable either in cash in eight equal quarterly instalments commencing February 15, 1978 or by way of participation in exploration programs prior to November 15, 1977 (see note 4 below).

These business combinations were accounted for as purchases and are summarized as follows:

	Jennings International Drilling	South Eastern Pipeline, South Eastern Construction and Kari
Book value of acquired assets	$1,341,005	$427,312
Book value of assumed liabilities	—	66,223
	1,341,005	361,089
Excess of assigned value over book value of acquired net assets		
Natural gas and petroleum properties	—	15,064
Drilling rigs, construction and related equipment	2,119,549	191,120
Other assets	55,863	132,662
	2,175,412	338,846
Amount of consideration given	$3,516,417	$699,935

The excess of assigned value over book value of acquired net assets is subject to the accounting policies outlined in note 1 above. The consolidated statement of earnings of the company includes the earnings of the acquired businesses from the effective dates of acquisition.

Funds applied during the 1976 fiscal year on the acquisition of Jennings International Drilling, South Eastern Construction, South Eastern Pipeline and Kari comprised:

	Jennings International Drilling	South Eastern Pipeline, South Eastern Construction and Kari
Amount of consideration given	$3,516,417	$699,935
less: Working capital acquired	—	98,056
Other net assets acquired	$3,516,417	$601,879
Fixed assets	$3,460,554	515,759
Other assets	55,863	132,762
less: Deferred income taxes	—	(46,642)
	$3,516,417	$601,879

3. Fixed Assets

The following is a summary of the cost of fixed assets and the related accumulated depletion and depreciation as at July 31, 1976 and 1975.

	1976			1975
	Cost	Accumulated Depletion and Depreciation	Net	Net
Natural gas, petroleum and mineral leases and rights together with development and equipment thereon				
Producing properties	$10,670,307	$611,239	$10,059,068	$4,424,793
Capped wells and undeveloped properties	7,507,571	—	7,507,571	4,590,400
Drilling rigs, construction and related equipment	3,854,051	293,281	3,560,770	—
Land, buildings and other equipment	506,798	92,365	414,433	—
	$22,538,727	$996,885	$21,541,842	$9,015,193

4. Long-Term Debt

	1976	1975
Bank indebtedness (a)	$12,012,448	$2,857,100
Affiliated company (b)	430,303	506,885
Advance for development including accrued interest of $561,323 (1975—$180,185) (c)	4,461,323	3,180,185
Note payable (d)	411,233	—
Other	—	44,443
	17,315,307	6,588,613
Current maturities	2,758,040	730,622
	$14,557,267	$5,857,991

(a) The bank indebtedness is evidenced by a demand promissory note repayable at approximately $2.6 million per annum, bears interest at 1% above bank prime rate, and is secured by the Company's interest in certain petroleum and natural gas properties and the assignment of production proceeds therefrom.

(b) The amount due to the affiliated company is evidenced by a promissory note dated November 30, 1972, includes accrued interest of $30,040 as at July 31, 1976, bears interest at 7%, is repayable in annual instalments of $100,000 and matures in 1980.
(c) During 1975 arrangements were made for the financing of the development of certain of the Company's natural gas and petroleum properties. Under the terms of an agreement dated December 17, 1974, an outside corporation has agreed to advance up to $45,000,000 in varying amounts, subject to the proving of additional reserves, to 1989. The advances bear interest at 1% above a bank prime rate and are secured by and repayable from a royalty interest in production from the specified properties. As at July 31, 1976, $3,900,000 had been received under this arrangement.
(d) The note payable bears interest as from November 15, 1977 at a bank prime rate and is repayable either in cash in eight equal quarterly instalments commencing February 15, 1978 plus accrued interest or by way of participation in specified exploration programs prior to November 15, 1977.
The estimated amount of long-term debt maturities for the five years subsequent to 1976 are as follows: 1977—$2,758,040, 1978—$2,830,808, 1979—$2,933,617, 1980—$2,830,808, and 1981—$1,500,711.

5. Capital Stock

(a) On November 28, 1972 the company reorganized its share capital by sub-dividing the issued shares and by increasing its authorized share capital to 7,500,000 shares without nominal or par value. Changes in capital stock since that date to July 31, 1976, and subsequent thereto, were as follows:

	Number of Shares			
	Class A	Class B		Consideration
Balance, November 28, 1972 after subdivision			3,360,000	$ 2,090
Issued for cash			816,665	4,047,642*
Issued in satisfaction of indebtedness			16,665	83,325
Balance, July 31, 1973, 1974 and 1975			4,193,330	4,133,057
Issued on exercise of options			33,000	155,640
Balance, July 31, 1976			4,226,330	4,288,697
Conversion of issued and outstanding shares into Class A and and Class B shares (see note 8)	4,226,330	4,226,330	(4,226,330)	—
Balance after conversion	4,226,330	4,226,330	—	$4,288,697

*Net of share issue expenses of $99,683.

(b) As of July 31, 1976, an officer held an option to purchase 2,000 common shares in the capital stock of the Company. This option is exercisable at $3.83 per share and expires in 1977.

(c) Reference is made to note 8.

6. Anti-Inflation Act

Effective October 14, 1975, the Canadian federal government passed the Anti-Inflation Act which is presently scheduled to be in force until December 31, 1978. Prices for crude oil, natural gas and natural gas liquids are controlled under the Petroleum Administration Act and are not subject to anti-inflation legislation.

7. Per Share Data

Earnings and losses per share are based on the weighted average number of shares outstanding during the periods. For the purpose of calculating earnings and losses per share, the reorganization of share capital, referred to in Note 8 below, has been treated as a subdivision of share capital as though it had been effective August 1, 1971.

8. Subsequent Events

(a) Subsequent to July 31, 1976, the company, by special resolution of its shareholders, converted the 4,226,330 shares of the company into stock and reconverted the stock into 4,226,330 Class A common shares without nominal or par value and 4,226,330 Class B common shares without nominal or par value. Accordingly, each shareholder received one Class A common share and one Class B common share for each share previously held. In addition, the authorized capital of the company was increased to an aggregate of 7,500,000 Class A common shares and 25,000,000 Class B common shares, issuable for a maximum consideration of $10 million and $75 million, respectively.
The Class A and Class B shares rank equally one with the other except that each Class A share carries twenty votes and each Class B share carries one vote, and Class A shares are convertible at the option of the holder into Class B shares on a one-for-one basis.

(b) Subsequent to July 31, 1976, the company made an offer to certain of the shareholders of Alberta Eastern Gas Limited to acquire shares of Alberta Eastern, for $9.00 cash and one Class B common share of the company for each share of Alberta Eastern. The company estimates that it will be required to pay $45.7 million and to issue 5,075,500 Class B shares to acquire all the shares of Alberta Eastern.

9. Remuneration of Directors and Senior Officers

During the year ended July 31, 1976 the company paid $296,189 in remuneration to its directors and senior officers.

PRINT
IN
CANA

OCELOT INDUSTRIES LTD.

Method of Delivery of Your Shares

The method of delivery of the Letter of Transmittal and the share certificate(s) to National Trust is at the option and risk of the shareholder, but personal delivery or delivery by registered mail is suggested.

Additional copies of the Letter of Transmittal and accompanying documents may be obtained from any office of National Trust specified below:

CALGARY
National Trust Company, Limited
330 - 9th Avenue S.W.,
Calgary, Alberta
T2P 1K7

MONTREAL
National Trust Company, Limited,
1350 Sherbrooke Street West,
Montreal, Quebec
H3G 1J1

TORONTO
National Trust Company, Limited,
21 King Street East,
Toronto, Ontario
M5C 1B3

VANCOUVER
National Trust Company, Limited,
510 Burrard Street,
Vancouver, British Columbia
V6C 2J7

WINNIPEG
National Trust Company, Limited,
250 Portage Avenue,
Winnipeg, Manitoba
R3C 0B5

REGINA
Canada Permanent Trust Company,
1778 Scarth Street,
Regina, Saskatchewan
S4P 2G1

or from members of the Investment Dealers' Association of Canada or from any member firm of a recognized Canadian Stock Exchange.

OCELOT INDUSTRIES LTD. ANNUAL REPORT 1976

LITHOGRAPHED IN CANADA

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended January 31, 1976

(Unaudited)

		1976	1975
SOURCE OF FUNDS			
From Operations		$ 1,019,417	$ -
Long-Term Debt		9,734,394	3,757,877
Issue of Capital Stock		30,639	-
Proceeds on Sale of Equipment			621,297
		$10,784,450	$4,379,174
APPLICATION OF FUNDS			
In Operations		$ -	$ 246,183
Property, Plant and Equipment		8,859,446	1,898,003
Long-Term Debt		2,035,932	448,600
Investments		56,238	-
Acquisition of Subsidiary Companies	$699,935		
Working Capital Acquired	110,348		
	$589,587		
Property, Plant and Equipment	636,229		
Deferred Income Taxes	(46,642)	589,587	-
		$11,541,203	$2,592,786
INCREASE (DECREASE) IN WORKING CAPITAL		$ (756,753)	$1,786,388
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF PERIOD		$(1,013,993)	($1,223,894)
WORKING CAPITAL (DEFICIENCY) AT END OF PERIOD		$(1,770,746)	$ 562,494

Ocelot Industries Ltd.

INTERIM REPORT TO SHAREHOLDERS
For Six Months Ended January 31, 1976

TO THE SHAREHOLDERS:

We are pleased to present the operating results for Ocelot Industries Ltd., for the six months period ending January 31, 1976.

The following reports outline your Company's consolidated financial operations for this period. As you can see we have made significant improvement in oil and gas sales, drilling and pipelining revenue, cash flow and net earnings.

Comparison with the same period for the prior year points up these increases.

OIL AND GAS SALES revenue before royalty deductions increased from $286,991 to $1,743,186 - a gain of 507%.

CASH FLOW from operations rose $1,247,644 — an increase of 790%.

NET EARNINGS before provision for deferred income taxes and extraordinary items increased from a loss of $267,783 to a gain of $899,637 - an increase of $1,167,420, equivalent to 436%. The earnings per share before extraordinary items improved by 300%. The earnings per share after extraordinary items improved by 575%.

We anticipate an even stronger growth period for the last half of our current fiscal year ending July 31, 1976.

Respectfully submitted on behalf of the Board of Directors.

J. V. Lyons

J. V. Lyons
President

Calgary, Alberta
March 18, 1976

CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months Ended January 31, 1976
(Unaudited)

	1976	1975
REVENUE		
Oil and Gas Sales	$1,743,186	$286,991
Less: Royalties	510,100	82,547
	1,233,086	204,444
Contract Drilling and Pipeline Construction	2,862,759	-
Interest and Other	21,471	23,468
	$4,117,316	$227,912
EXPENSES		
Production	$ 344,400	$ 59,398
Contract Drilling and Pipeline Construction	1,712,627	-
Carrying Charges on Non-Producing Properties	104,372	53,028
Exploration	97,862	82,786
General and Administration	216,239	53,818
Interest	551,988	225,065
Depletion and Depreciation	190,191	21,600
	$3,217,679	$495,695
EARNINGS (LOSS) Before Undernoted Item	$ 899,637	($267,783)
Income Taxes	409,911	-
NET EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS	$ 489,726	($267,783)
EXTRAORDINARY ITEMS		
Recovery of Deferred Income Taxes	323,750	-
Gain on Sale of Equipment	-	88,367
	$ 323,750	$ 88,367
NET EARNINGS (LOSS) FOR THE PERIOD	$ 813,476	($179,416)
PER SHARE:		
Net Earnings (Loss) Before Extraordinary Items	$ 0.12	$ (0.06)
Net Earnings (Loss) After Extraordinary Items	$ 0.19	$ (0.04)

OCELOT INDUSTRIES LTD.

Notice

of

Annual General Meeting

January 7, 1976

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Ocelot Industries Ltd. (hereinafter called the "Company") will be held in the Lakeview Room of the Calgary Inn, in the City of Calgary in the Province of Alberta, Canada on Wednesday, the 7th day of January, 1976, at 10:00 o'clock in the forenoon, Calgary Time, for the following purposes:

1. To receive, consider and, if thought fit, approve the Directors' Report, the Consolidated Financial Statements for the year ended July 31, 1975 and the Auditors' Report;

2. To elect directors;

3. To appoint auditors and to delegate to the Board of Directors the authority to determine the amount of their remuneration; and

4. To transact such other business as may properly be brought before the Meeting or any adjournment or adjournments thereof.

The Board of Directors has fixed the close of business on December 9, 1975 as the record date for the determination of shareholders entitled to notice of, and to vote at, the said meeting and at any adjournment or adjournments thereof. The transfer books will not be closed. Shareholders who do not expect to attend the Meeting in person are requested to complete, sign the enclosed Instrument of Proxy and forward it in the stamped and addressed envelope provided, to the Secretary of the Company, c/o National Trust Company Limited, 300-330 Ninth Avenue S.W., Calgary, Alberta, Canada T2P 1K7 to reach that address no later than twenty-four (24) hours before the time fixed for the commencement of the meeting.

DATED at the City of Calgary, in the Province of Alberta, this 11th day of December, 1975.

BY ORDER OF THE BOARD OF DIRECTORS,

D. S. Harris

Secretary.

Information Circular

Solicitation of Proxies

This Information Circular is furnished in connection with the solicitation of proxies by the Management of Ocelot Industries Ltd. (hereinafter called the "Company") to be used at the Annual General Meeting of the Company to be held at the time and place and for the purposes set forth in the accompanying Notice of Meeting. The solicitation will be by mail, but proxies may also be solicited personally by Directors and regular employees of the Company. All expenses in connection with this solicitation by the Management to the registered shareholders will be borne by the Company.

Appointment, Revocation and Delivery of Proxies

The persons named in the attached Instrument of Proxy are Directors of the Company. **A shareholder desiring to appoint some other person to represent him at the Meeting may do so** either by inserting such person's name in the blank space provided in the Instrument of Proxy or by completing another proper form of proxy and, in either case, depositing it with the Secretary of the Company within the time hereinafter specified for receipt of Instruments of Proxy. A person appointed as a proxy need not be a sharehold of the Company.

A shareholder who has given a proxy may revoke it (a) by signing an Instrument of Proxy bearing a later date, which is received by the Company at the office of National Trust Company Limited, 300 - 330-9th Avenue S.W., Calgary, Alberta, Canada T2P 1K7, at least 24 hours prior to the time for commencement of the meeting, (b) by signing an instrument revoking the proxy and delivering it to the Secretary of the Company, or (c) by attending at the meeting and voting in person.

An Instrument of Proxy to be voted at the Meeting must be received by the Secretary of the Company, c/o National Trust Company Limited, 300 - 330 Ninth Avenue S.W., Calgary, Alberta, Canada T2P 1K7 not less than twenty-four (24) hours before the time fixed for the commencement of the Meeting; otherwise it shall be invalid.

Exercise of Discretion by Proxies

The persons named in the attached Instrument of Proxy will, if it is duly completed and timely deposited, vote the shares in respect of which they are appointed (a) upon the motion for approval of the Directors' Report, Financial Statement and Auditors' Report thereon, in accordance with the direction of the shareholders appointing them (or, in the absence of such direction, for such approval); and (b) for the election of directors and the appointment of auditors, as stated under those headings in this Circular. The attached Instrument of Proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, and with respect to other matters which may properly come before the Meeting. At the time of printing this Circular, the Management of the Company knows of no such amendments, variations or other matters to come before the meeting other than the matters referred to in the Notice of Meeting.

Voting Shares and Principal Holders Thereof

Each shareholder of record present in person at the Annual General Meeting is entitled to one vote on a show of hands and, on a poll, each shareholder of record present in person or represented by proxy is entitled to one vote for each Common Share held at the record date.

At the close of business on December 9, 1975, there were outstanding 4,193,330 Common Shares without nominal or par value all of which, together with any other shares which may be issued prior to the record date, are entitled to be voted at the meeting.

On November 30, 1975 the only persons who, to the knowledge of the Directors and Senior Officers of the Company, beneficially owned, directly or indirectly, shares carrying more than 10% of the voting rights attached to all shares of the Company were: J. V. Lyons 2,409,581 shares (57.46%), and Murcon Development 618,866 shares (14.76%). Gardiner, Watson Limited, Stockbrokers, 335 Bay Street, Toronto, Ontario, were registered owner of 552,790 shares (13.18%), but have advised that they are not the beneficial owners of these shares.

Election of Directors

The Articles of Association of the Company provide that all of the directors shall retire from office at each Annual General Meeting, and shall be eligible for re-election. A director need not be a shareholder of the Company.

The persons named in the attached Instrument of Proxy have stated they will vote for the election of the nominees whose names are set forth below, five of whom are now members of the Board of Directors. The Management knows of no reason why any of the nominees will be unable to serve as a director, but if notice is received that a nominee will not serve for any reason, the persons named in the attached Instrument of Proxy reserve, and are granted, the right to vote for another nominee in their discretion. Each director elected will hold office until the next Annual General Meeting and until his successor is duly elected.

In the following table and the notes thereto are stated the names of all nominees for election as directors, all other positions and offices with the Company now held by them (if any), their present occupations or employments, the date on which each became a director of the Company and the number of shares of the Company beneficially owned directly or indirectly by each as at November 30, 1975.

Name and Present Occupation	Served as a Director since	Shares beneficially owned at November 30, 1975
Edmonds, Orville — Toronto, Ontario Director and Officer of Gardiner, Watson Limited, Stockbrokers and Investment Dealers.	April 24, 1973	16,000
Hannon, Norbert Michael, Jr. — Calgary, Alberta Officer, Murcon Development Ltd., a private Investment Company.	January 15, 1973	618,866
Harris, Donald S. — Calgary, Alberta Vice-President, Secretary-Treasurer of Ocelot Industries Ltd.	September 18, 1970	230,123
Lyons, J. Verne — Calgary, Alberta President of Ocelot Industries Ltd.	August 3, 1971	2,409,581
Solomon, George C. — Regina, Saskatchewan President of Western Tractor Co. Limited, Industrial Equipment and Road Machinery Distributors.	September 11, 1973	2,000

Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid by the Company to directors and senior officers during the fiscal year ended July 31, 1975 was $160,827. No fees were paid to the Directors.

Stock Options

Options have been granted to senior officers, who are also employees, to purchase 35,000 shares of the Company. One option dated November 29, 1972 is for 25,000 shares at $5.00 per share, exercisable cumulatively on a certain number of shares each year through May 31, 1976. A second option dated October 31, 1973 is for 10,000 shares at $3.83 per share exercisable cumulatively on a certain number of shares each year through April 30, 1977.

Appointment of Auditors

As set forth in the Notice, action will be taken at the Meeting with respect to the reappointment of auditors. The persons named in the attached Instrument of Proxy will vote the shares in respect of which they are appointed proxy in favour of the reappointment of Thorne Riddell & Co., successors to Riddell, Stead & Co., which firm was first appointed as auditors at the meeting of the Board of Directors of the Company held on August 15, 1970. The Management of the Company knows of no relationship between Thorne Riddell & Co., or any of its associates and the Company, or any of its affiliates, except as auditors.

Purchase of Jennings International Drilling

On October 15, 1975, the Company, subject to regulatory approval, entered into an Agreement with Pancana Industries Ltd. to purchase, from Pancana, assets operated as Jennings International Drilling for a total consideration of $3,850,000.00 payable $3,066,416.86 in cash, $333,583.14 by assumption of an encumbrance against certain assests purchased and $450,000.00 by way of promissory note. The Agreement received all regulatory approval on November 25, 1975, and was closed on November 26, 1975, having an effective date of October 1, 1975.

The funds required at closing came from the Company's existing line of credit with its banker, which line of credit is scheduled for repayment under long-term oil and gas production loans.

Jennings International Drilling operates six oil and gas drilling rigs throughout Western Canada and the Northest Territories (including the Arctic) and the Company intends to operate this division under the trade name Jennings International Drilling.

Purchase of Kari Investments Ltd. et al

On October 28, 1975, the Company, subject to regulatory approval, entered into Agreements to purchase all shares of Kari Investments Ltd., South Eastern Constuction and Distribution Ltd. and South Eastern Pipeline Construction Ltd. for a total consideration of $2,300,000.00 payable in cash on closing.

The funds required at closing will come from the Company's existing line of credit with its banker which line of credit is scheduled for repayment under long-term oil and gas production loans.

Kari Investments Ltd. holds an interest in 47 gas wells and 4 oil wells and 50,000 acres of petroleum and natural gas leases. This purchase, when closed, will be effective September 1, 1975. South Eastern Construction and Distribution Ltd. and South Eastern Pipeline Construction Ltd. operate as oil field construction companies whose activities are centered in the Medicine Hat area of southeastern Alberta and western Saskatchewan. The purchase of these latter companies, when closed, will be effective September 29, 1975.

At this time, the Company is seeking regulatory approvals to the above acquisitions and closing is scheduled for late 1975 or early 1976.

Other Business

While there is no business of which the Management is aware to be presented for action by the shareholders at the Annual General Meeting other than that mentioned above, it is intended that the proxy votes hereby solicited will be exercised upon any other matters and proposals that may properly come before the Meeting, or any adjournment or adjournments thereof, in accordance with the discretion of the person authorized to act thereunder.

CALGARY, ALBERTA.
December 11, 1975.

Secretary
D. S. Harris

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